

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
DISTRICT RESPONSE	2
FINDINGS AND RECOMMENDATIONS	
<u>Cash Receipts</u>	
FIA-61A Log Reconciliation	2-3
Returned Warrants	3
Mail Opening	3
<u>Cash Disbursement</u>	
Payment without Authorized Approval	4
<u>Safe and Controlled Documents</u>	
Control of Official Field Receipts	4-5
Controlled Document Log	5
<u>IRS Information Security</u>	
Knowledge of IRS Security Procedures	5-6
Unsigned Unearned Income Notice	6
Follow-up of IRS Information	6
<u>CIMS/ASSIST/LASR Security</u>	
CIMS Security Agreements	7
CIMS Status Codes	7-8
Security Officer's Log Report	8
ASSIST Enrollment Profiles	8-9
VB9-163 Violation Report	9

Payment Authorization Files	9-10
Reconciliation of Flagged Transactions on MA-010	10
MA-010 Reconciliation – Supplemental Payments	10
MA-010 Reconciliation – Openings and Reopenings	11
<u>Payroll and Timekeeping</u>	
Payroll Record Retention	11
Reconciliation of HR-332A Turnaround Report	11-12
Payroll Certification	12
Supervisor’s Approval of Time and Attendance Reports	12
<u>State Car Usage</u>	
Maintaining State Car Usage Log	13

INTRODUCTION

The Office of Internal Audit performed an audit of the Schoolcraft/Stansbury District, Wayne County FIA for the period May 1, 2002 through May 31, 2003. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Schoolcraft/Stansbury District had 84 full time equated positions (FTE's) at the time of our review. The Schoolcraft/Stansbury District provided assistance to an average 12,887 customers per month during FY 2001, with total assistance payments of \$19,967,157 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Schoolcraft/Stansbury District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Cash Receipts

Cash Disbursements

State Emergency Relief

Safe and Controlled Documents

Client Processing

IRS Information Security

Employment Support Services

CIMS/ASSIST Security

Payroll and Timekeeping

Procurement Card

State Car Usage

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Schoolcraft/Stansbury District internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found that controls were generally adequate as they relate to State Emergency Relief, Client Processing, and Procurement Card Usage. However, we found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls in other areas, which are detailed below.

DISTRICT RESPONSE

The management of the Schoolcraft/Stansbury District has reviewed all findings and recommendations included in this report. They indicated by e-mail on July 7, 2003 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

FIA-61 Log Reconciliation

1. The Schoolcraft/Stansbury District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We found thirteen (13) open items on FIA-61, where checks/warrants were not on hand. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up-to-date facilitates the reconciliation process.

WE RECOMMEND that the Schoolcraft/Stansbury District perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Returned Warrants

2. The Schoolcraft/Stansbury District maintained returned state warrants for over 60 days instead of 10 days, as required by Accounting Manual Item 462. Voiding the returned state warrants after 10 business days encourages immediate disposition and provides improved accountability for the warrants.

WE RECOMMEND that the Schoolcraft/Stansbury District dispose of returned state warrants within 10 business days.

Mail Opening

3. The Schoolcraft/Stansbury District had two people open the mail. However, the same person who opened the mail also completed the Record and Disposition of Checks/Warrants (FIA-61). Accounting Manual Item 431 states that one person should open the mail, and the second should log the items on the FIA-61. Having the second person log in the warrants helps to ensure that all items received are recorded.

WE RECOMMEND that the Schoolcraft/Stansbury District have one mail clerk open the mail and the second mail clerk log the returned state warrants.

Cash Disbursements

Payment without Authorized Approval

4. The Schoolcraft/Stansbury District processed two payments without authorized approval. One payment of \$1,400.00 was for the purchase of bus tickets without authorized approval on form FIA-4663, Employment and Training Expenditures Authorization. The other payment of \$1,200.00 was for the purchase of a car for a customer without authorized approval on form FIA-2083, Purchase Order/Invoice. Accounting Manual Item 450 requires that the preparer's supervisor or other person designated by the local office director approve all expenditures. Proper approval of expenditures helps reduce the risk of unauthorized transactions being processed.

WE RECOMMEND that the Schoolcraft/Stansbury District require that all expenditures be approved by the preparer's supervisor or other person designated by the director.

Safe and Controlled Documents

Controlled of Official Field Receipts

5. The Schoolcraft/Stansbury District did not properly control blank field receipts (FIA-3543). We noted that the district was not using the Controlled Document Log (FIA-4070) for Official Field Receipts since October 2002 or preparing the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) since January 2002. Accounting Manual Item 403 requires that the Controlled Document Log and Monthly Controlled Document Inventory and Reconciliation be prepared for all controlled documents monthly. Use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that the Schoolcraft/Stansbury District record the inventory of field receipts on the Controlled Document Log and prepare the Monthly Controlled Document Inventory and Reconciliation for field receipts.

Controlled Document Log

6. The Schoolcraft/Stansbury District did not record the Balance on Hand and total of documents used on the Controlled Document Log (FIA-4070) for Payment Authorizations (FIA-849), Bus tickets and transfers, and EBT cards as required by Accounting Manual Item 403. In addition, the Controlled Document Log (FIA-4070) contained numerous errors.

WE RECOMMEND that the Schoolcraft/Stansbury District properly record the documents on hand in the Balance on Hand column and documents used in the total used column for all controlled documents.

IRS Information Security

Knowledge of IRS Security Procedures

7. Some of the Schoolcraft/Stansbury District mailroom staff, Family Independence Specialists (FIS), and Eligibility Specialists (ES) were unaware of the proper procedures to follow for confidential information received from the Internal Revenue Service (IRS). Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Schoolcraft/Stansbury District familiarize all staff with all aspects of the confidentiality laws for information received from the IRS.

Unsigned Unearned Income Notice

8. The Schoolcraft/Stansbury District did not always properly safeguard unsigned Unearned Income Notices (FIA-4487A). We found eleven (11) cases where the unsigned FIA-4487A was being held by the worker, and were not recorded on the Internal Revenue Service Data Control Sheet (FIA-4488). Program Administrative Manual Item 803 requires that unsigned FIA-4487A's be held by the DSP in a secure area, and that all FIA-4487A's be recorded on the FIA-4488. These procedures are necessary to ensure that information obtained from the IRS remains confidential.

WE RECOMMEND that the Schoolcraft/Stansbury District ensure that all unsigned FIA-4487A's are kept by the DSP in a secure area, and are recorded on the FIA-4488.

Follow-up of IRS Information

9. The Schoolcraft/Stansbury District did not always document on the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) that action was taken on information received from the IRS, as required by Program Administrative Manual Item 803. We noted that for three (3) cases on the FIA-4488 the district did not record that any action was taken on the Unearned Income Notice (FIA-4487A). Taking appropriate action on the FIA-4487A helps to ensure that customers receive the appropriate amount of benefits.

WE RECOMMEND that the Schoolcraft/Stansbury District follow up on all FIA-4487A's and document the action taken on the FIA-4488.

CIMS/ASSIST/LASR Security

CIMS Security Agreements

10. The Schoolcraft/Stansbury District did not have accurate, up-to-date CIMS Security Agreements (FIA-3974A) on file for all employees who access the Client Information Management System (CIMS), as required by L-Letter 97-063. Eight out of 96 employees had a status code indicated on the FIA-3974A that did not agree with the current status code listed on the Operator Identification Report (PF-011). An accurately completed Security Agreement is necessary to document that the employee understands the responsibilities associated with their CIMS access, and that the supervisor approves the level of CIMS access.

WE RECOMMEND that The Schoolcraft/Stansbury District ensure that all employees who have access to CIMS have an accurate, up-to-date Security Agreement on file.

CIMS Status Codes

11. Two clerks at the Schoolcraft/Stansbury District had FLM status, one FIM had FIS status, and the District Manager had COR status on the Client Information Management System (CIMS). These status codes allow these individuals to process transactions that are not necessary for their positions, and allow them to process transactions without an independent review of those transactions.

WE RECOMMEND that the Schoolcraft/Stansbury District either change the clerks to inquiry only status on CIMS or customize their status to allow them only the FLM transactions they need to perform their duties, and have an independent person review 100% of the transactions processed by them.

WE ALSO RECOMMEND that the District Manager and Family Independence Manager's status be changed to INQ, or that an independent person review all transactions processed by the FIM and the District Manager.

Security Officer's Log Report (PD-180)

12. The Schoolcraft/Stansbury District did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). Family Independence Agency Letter L-97-063 requires the reconciler to review changes listed on this report to signed Security Agreements to ensure that all changes are accurate and properly authorized. For internal control purposes, the reconciler must not be the CIMS Security Coordinator or have update capability on CIMS.

WE RECOMMEND that Schoolcraft/Stansbury District have an independent person reconcile the PD-180 report to the Security Agreements.

ASSIST Enrollment Profiles

13. The Schoolcraft/Stansbury District did not have accurate, up-to-date ASSIST Enrollment Profiles (FIA-3720) on file as required by L-Letter 97-156. For 4 out of the 97 ASSIST Enrollment Profiles we reviewed the status code indicated on the FIA-3720 did not agree with the current status code listed on the Monthly User Listing, ASSIST Report Number VB9-554. In addition, there were 10 employees listed on the VB9-554 Report who were no longer employed at the Schoolcraft/Stansbury District.

WE RECOMMEND that the Schoolcraft/Stansbury District ensure that accurate, up-to-date Enrollment Profiles (FIA-3720's) are on file for all employees who have

access to ASSIST, and that employee access is removed when they terminate employment at the District for any reason.

VB9-163 Violation Report

14. The Schoolcraft/Stansbury District did not reconcile the VB9-173 Security Officers Log to the updated Enrollment Profiles, and the management was not notified of any resets made by the security officer on the VB9-163 Violation Report. Family Independence Agency Letter L-97-063 requires that the VB9-173 Security Officers Log be reconciled to ensure that all changes are accurate and properly authorized, and that management be notified of resets made by the security officer after employees were locked out to ensure the reset was appropriate.

WE RECOMMEND that the Schoolcraft/Stansbury District have an independent person reconcile the VB9-173 Report to revised Security Agreements, and review the VB9-163 Report and notify management of any resets made by the security officer that are reported on the VB9-163 Violation Report

Payment Authorization Files

15. The Schoolcraft/Stansbury District did not maintain the files of Supplemental Payment Authorizations (FIA-13) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the district was maintaining the FIA-13's in chronological order by month. Maintaining the FIA-13's in either alphabetical or case number order provides an audit trail to easily detect how many supplemental payments a client has received, and makes the FIA-13's easy to retrieve if needed at a later date.

WE RECOMMEND that Schoolcraft/Stansbury District maintain the FIA-13's in alpha order by year instead of by month.

Reconciliation of Flagged Transactions on MA-010 Report

16. The Schoolcraft/Stansbury District did not reconcile flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information Management System (CIMS).

WE RECOMMEND that the Schoolcraft/Stansbury District have a non-operator reconcile the flagged transactions on the MA-010 to the input documents.

MA-010 Reconciliation - Supplemental Payments

17. The Schoolcraft/Stansbury District did not reconcile a sample of the Supplemental Payments listed on the Transaction Control Listing (MA-010) to the Supplemental Payment Authorization and other supporting documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. We found that 4 of the MA-010 Reports for the month of December 2002, did not have the FIA-13's attached for reconciliation purposes. Reconciling the Supplemental Payments on a sample basis helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that the Schoolcraft/Stansbury District reconcile a sample of the Supplemental Payments on the MA-010 to the FIA-13's and other supporting documentation.

MA-010 Reconciliation - Openings and Reopenings

18. After December 2002, The Schoolcraft/Stansbury District did not reconcile a sample of new case openings and reopenings listed on the MA-010 Report to case documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of case openings and reopenings provides assurance that cases were opened by their assigned worker.

WE RECOMMEND that Schoolcraft/Stansbury District reconcile a sample of case openings and reopenings on the MA-010 Report to case file documentation.

Payroll and Timekeeping

Payroll Record Retention

19. The Schoolcraft/Stansbury District timekeeper maintained the certified copy of the HR-332A. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that the Schoolcraft/Stansbury District have the certifier or someone other than the timekeeper retain the HR-332A.

Reconciliation of HR-332A (B) Turnaround Report

20. The Schoolcraft/Stansbury District did not reconcile the turnaround HR-332A to the original HR-332A report a week after payroll was run. The Primary Internal Control Criteria for Local/District Office Operations recommends that the District reconcile the turnaround report to verify that the actual time reported agrees with the time that was originally submitted.

WE RECOMMEND that the Schoolcraft/Stansbury District reconcile the turnaround HR-332A report to the original HR-332A report.

Payroll Certification

21. The Schoolcraft/Stansbury District timekeeper certified the payroll TKU before the original HR-332A report was printed and signed by the certifier. The Primary Internal Control Criteria for Local/District Office Operations recommends that the timekeeper certify the payroll after the original HR-332A report is printed and signed by the certifier. Waiting until the certifier reviews and signs the HR-332A helps to ensure the accuracy of the time reported.

WE RECOMMEND that the Schoolcraft/Stansbury District timekeeper certify the payroll after the original HR-332A report is printed and signed by the certifier.

Supervisor's Approval of Time and Attendance Reports

22. Time and Attendance Reports (FIA-4299) at the Schoolcraft/Stansbury District were not always properly approved. For the month reviewed there were two FIA-4299's that were not approved by the supervisor. The Primary Internal Control Criteria for Local/District Office Operations recommends that the supervisors approve the employee time and attendance reports, attesting to the accuracy of all reported time.

WE RECOMMEND that the Schoolcraft/Stansbury District have the employee's supervisor approve all time and attendance reports.

State Car Usage

Maintaining State Car Logs

23. The Schoolcraft/Stansbury District did not properly maintain state car mileage logs.

The total monthly miles driven were not recorded, daily miles driven were not shown and the log was not signed and dated by the authorized agent.

We also found many instances where the state car was driven without making proper entries on the State car log. Maintaining complete mileage logs helps ensure the state cars were used for appropriate purposes, and mileage is properly recorded.

WE RECOMMEND that the Schoolcraft/Stansbury District maintain a complete and accurate log for each state car, and that the supervisor approve the mileage by signing and dating the mileage log.